

May 13, 2022

Blue Jay Finlease Private Limited: Provisional [ICRA]BBB-(SO) assigned to PTCs backed by unsecured small business loan receivables issued by Dorsey 04 2022

Summary of rating action

Trust Name	Instrument Name *	Rated Amount (Rs. crore)	Rating Action
Dorsey 04 2022	Series A1 PTCs	3.94	Provisional [ICRA]BBB-(SO); Assigned

*Instrument details are provided in Annexure-1

Rating in the absence of the pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Blue Jay Finlease Private Limited (Blue Jay/Originator). The PTCs are backed by a pool of Rs. 5.74-crore unsecured small business loan (SBL) receivables (underlying pool principal of Rs. 4.38 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 6.50% of the initial pool principal to be provided by the Originator, (ii) an over-collateralisation of 10.00% of the pool principal for Series A1 PTCs, and (iii) the entire excess interest spread (EIS) in the structure. The rating is also based on the integrity of the legal structure and is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, subordination and CC
- Absence of overdue contracts as on pool cut-off date

Credit challenges

- High geographical concentration with top 3 states having ~82% share in the pool
- Pool's performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

Description of key rating drivers highlighted above

The underlying loans follow a monthly payment schedule. As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to Series A1 PTCs at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date. The principal is expected to be paid on a monthly basis but is not promised. The EIS available after meeting the promised PTC payments shall flow back to the Originator on every payout date.

The first line of support for Series A1 PTCs in the transaction is in the form of over-collateralisation of 10.00% of the pool principal. Additionally, the EIS available in the structure provides CE support. A CC of 6.50% of the initial pool principal provided by Blue Jay acts as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the Trustee will utilise the CC to meet the shortfall.

There were no overdues in the pool as on the cut-off date. The loans in the pool have moderate seasoning with a weighted average seasoning of 6 months and average pre-securitisation amortisation of ~16%. The pool has high geographical concentration with the top 3 states (Delhi, Maharashtra and Rajasthan) accounting for ~82% of the pool principal. The rating also factors in the rise in delinquencies in Blue Jay's portfolio post the onset of the pandemic. However, ICRA expects the delinquencies to reduce with the improvement in collections going forward. Also, the pool's performance will remain exposed to any fresh disruptions that may arise due to the pandemic.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The mean and the coefficient of variation (CoV) are calibrated on the basis of the values observed in the analysis of the past performance of Blue Jay's loan portfolio. Given Blue Jay's short track record in the unsecured SBL segment, ICRA has also taken into account the credit quality experience of other more established players and ICRA's expectation of the credit quality of its portfolio. Blue Jay's target borrower segment could be financially vulnerable as well as subject to various seasonality factors. Though the company resorts to legal recourse for some delinquent loans, this may not always be a feasible option particularly given the small ticket size and the unsecured nature of the loans issued.

The resulting collections from the pool – after incorporating the impact of losses and prepayments as above – are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction. Various possible scenarios are simulated and the incidences of default to the investor as well as the extent of losses are measured. These are then compared with ICRA's internal benchmarks for the target rating.

For the current pool, after considering the above-mentioned factors regarding the asset class and after adjusting for key features like seasoning, overdues, ticket size, interest rate, bureau score, and geographical distribution, ICRA estimates the shortfall in the pool principal collection within the pool's tenure at 7.5-8.5%, with certain variability around it. The prepayment rate in the pool is estimated at 8.0-12.0% p.a.

Liquidity position: Adequate

As per the transaction structure, only the interest amount is promised to the PTCs on a monthly basis while the entire principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available CE are expected to be adequate to meet the promised payouts to the Series A1 PTCs investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the CE.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of Blue Jay's portfolio till March 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's Know Your Customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the ratings, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the company

Blue Jay Finlease Private Limited (trade name – ZipLoan) is a Delhi-based non-banking financial company (NBFC), which started its operations in 2016 to provide unsecured working capital finance to the underserved micro-enterprise segment. The company has operations in six locations, including Delhi, Indore, Lucknow, Jaipur, Mumbai and Dehradun, and a portfolio size of ~Rs. 140 crore as of March 2022.

Key financial indicators

For the period ended	FY2020	FY2021	9M FY2022 (provisional)
Net Worth (reported)	64.35	60.92	38.13
Total Assets	179.87	153.96	114.74
Managed Assets (incl. off-balance sheet receivables)	256.04	202.32	180.39
Profit after Tax (PAT)	(31.65)	(22.45)	(23.19)
PAT / AMA (%)	-9.8%	-16.2%	-15.0%
Return on Average Net Worth(%)	-	-	-62.42%
	39.50%	35.85%	

Source: Company data; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument Name	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 13, 2022			
1	Dorsey 04 2022	Series A1 PTCs	3.94	3.94	Provisional [ICRA]BBB-(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTCs	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Dorsey 04 2022	Series A1 PTCs	May 2022	13.00%	November 2024	3.94	Provisional [ICRA]BBB-(SO)

* Scheduled maturity date at transaction initiation; may change on account of prepayments

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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